MONTANA UNIVERSITY SYSTEM - WORKERS' COMPENSATION PROGRAM

AUDITED FINANCIAL STATEMENTS
With Supplemental Information

June 30, 2012 and 2011

Junkermier · Clark
Campanella · Stevens · P.C.
Certified Public Accountants and Business Advisors

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

October 2012

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Montana University System Workers' Compensation Program for the fiscal year ended June 30, 2012.

The audit was conducted by Junkermier, Clark, Campanella, Stevens, P.C., under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

12C-04

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WORKERS' COMPENSATION PROGRAM
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INDEPENDENT AUDITORS' REPORT

To the Legislative Audit Committee
of the Montana State Legislature
Helena, Montana

We have audited the accompanying financial statements of the Montana University System - Workers' Compensation Program (an enterprise fund of the State of Montana) as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Montana University System - Workers' Compensation Program's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the financial statements, the financial statements present only the Montana University System - (Workers' Compensation Program) and do not purport to, and do not, present fairly the financial position of the State of Montana as of June 30, 2012 and 2011, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana University System - Workers' Compensation Program (an enterprise fund of the State of Montana) as of June 30, 2012 and 2011 and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10 to the financial statements, management has elected to change its policy for recording the annual assessment from the Montana Department of Labor and Industry.

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2012, on our consideration of Montana University System - Workers' Compensation Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Junkermier, Clark, Campanella, Stevens, P.C.

Helena, Montana
October 31, 2012

MANAGEMENT DISCUSSION AND ANALYSIS

Management of the Montana University System Workers' Compensation Program (Program) provides this *Management's Discussion and Analysis* of the Program's financial statements. This narrative overview and analysis of the financial activities of the Program is for the fiscal year ended June 30, 2012. It should be read in conjunction with the Program's financial statements.

MISSION

The MUS Self-Funded Workers' Compensation Program will aggressively implement "best practices" in loss control and efficiently, expeditiously, and cost effectively handle workers' compensation claims in the best interests of the program and the employee.

OVERVIEW OF THE FINANCIAL STATEMENTS

The *financial statements* provide a broad view of the Program's operations. The statements provide both short-term and long-term information about the Program's financial position, which assists in assessing the Program's economic condition at the end of the fiscal year. These are prepared using the accrual basis of accounting; all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid are taken into account. The financial statements include: *Statement of Net Assets; Statement of Revenues, Expenses and Changes in Net Assets; and, Statements of Cash Flows.* The Program's financial statements also include the *Notes to the Financial Statement* that provides additional detail for understanding the financial statements.

The *Statement of Net Assets* presents all of the Program's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the Program's net assets may serve as a useful indicator of whether the financial position of the Program is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the Program's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as earned but unused vacation leave).

Statements of Cash Flows show how changes in balance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating, investing, and financing activities. Essentially, the cash flow statement is concerned with the flow of cash in and cash out of the Program. The statement captures both the current operating results and the accompanying changes in the balance sheet. As an analytical tool, the statement of cash flows is useful in determining the short-term viability of the Program, particularly its ability to pay bills.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Position and Results of Operation

Revenue

MUS premium revenues are based on a rate applied to payroll and are therefore dependent on employment and wages at the member campuses. The Program utilizes an actuarial analysis to establish annual work comp premium needs and the Program has consistently adopted a rate with a correspondingly high confidence level to meet this need. The approved premium rates are applied to monthly payroll by each member campus and submitted to the Program. For budgeting purposes, the rates are typically determined in January or February for the upcoming fiscal year.

While 2012 rates were initially determined in February 2011, significant legislative changes to the Montana Work Comp Act (WCA) passed later in the spring, led the Program to have an actuary reanalyze the Program's premium need in June 2011. Based on the actuarial reanalysis, the Committee adopted new rates just prior to the start of FY12 that were approximately 14% lower than FY11 rates.

Financial results indicate that FY12 premium revenues were $4,166,966. The Program earns modest interest on reserves deposited with Montana Board of Investments Short Term Investment Pool (STIP) and an interest bearing bank account used to pay claim costs. The average STIP yield for 2012 was 0.303%. The annual percentage yield earned from the interest bearing bank account was 0.19%. Total interest from both sources was approximately $45,650. When non-operating revenues of approximately $5,000 are added, total revenue for the Program is $4,217,562. Revenue need was estimated by the actuary to be 4,192,000.

Expenditures

Expenditures for 2012 were $4,529,544, which is slightly higher than 2011 expenditures. Claims paid account for $3,397,522, or 75% of expenditures when the $478,167 returned to campuses through $afety $mart investments is excluded from the expenditure total. The second largest Program expense is ceded insurance premiums at $249,016; the third is claim administration services at $179,430.

Net Assets

Net Assets at year end were $7,379,923, which are approximately $311,982 lower than net assets at 2011 year end. Insurance programs acknowledge that it is entirely possible for a given year's loss experience to exceed the premium revenues collected in that year and that reserves built through positive results achieved in most years can be used to offset larger than expected losses in exceptional years. Premium revenues were sufficient to cover claims and operating costs excluding $afety $mart expenditures which were intended to reduce net assets as described below.

Though the long-tailed nature of workers compensation claim costs was a key area addressed by the 2011 legislative changes to the WCA, the changes apply only to claims occurring *after* July 1, 2011. Assuring appropriate assets are committed to pay claim costs into the future remains a key obligation of the Program.

The MUS Program works with its actuary to set rates adequate to meet its operation costs and maintain adequate reserves. The Program and actuary recognized that the Program's reserve level was above the optimum range and initiated $afety $mart, in part, to decrease the Program's net assets in a controlled manner consistent with its mission and goals.

Investments

The Program's cash and investments as of June 30, 2012, totaled $17,712,707, an approximate 7% increase over invested assets at year end 2011.

Investments (Continued)

In 2007, the Board of Investments (the Board) purchased a $25 million par issue of Orion Finance USA AND purchased two issues of Axon Financial Funding totaling $90 million par and another $25 million par issue of Orion Finance USA.

These four issues were downgraded from the highest investment grade rating by Standard & Poor's and Moody's at
time of purchase, to a D rating by Standard & Poor's with an insolvency event declared by each. On the January and April 2008 maturity dates, these securities matured at their amortized cost of $140 million.

These SIV securities are currently generating cash to be applied to the securities. The Montana University System - Workers Compensation Program's share of these investments as of June 30, 2012 is $274,502. These are shown as long-term investments on the statement of net assets as of June 30, 2012.

Claim Liabilities

The Program carried total liabilities of $10,972,074 at the close of 2012 with approximately $1,753,552 in current claims liability and $9,083,448 in non-current claims liability.

MUS Program utilizes a third-party claims administrator with experienced, senior staff to manage claims and contracts with an independent actuary experienced in workers' compensation to calculate its claim liability and to ensure adequate reserving for the liability.

Current Year Financial and Budget Results

	FY 2012 Actual	**2012 Budget**	**Variance**
OPERATING REVENUE (Premiums)	**4,166,966**	**4,192,000**	(25,034)
OPERATING EXPENSES			
Personnel services	83,498	83,642	144
Operational expenses	570,357	620,418	50,061
Benefits & claims	3,397,522	3,268,000	(129,522)
OPERATING EXPENSE (Subtotal)	**4,051,377**	**3,972,060**	**(79,317)**
NON-OPERATING REVENUE (Interest & Misc)	50,596	0	50,596
CHANGE IN NET ASSETS –Before Safety Smart	**166,185**	**219,940**	**(53,755)**
SAFETY SMART AWARDS (Operating Expense)	478,167	500,000	21,833
CHANGE IN NET ASSESTS	**(311,982)**	**(280,060)**	**31,922**

Budget Variance

The FY12 legislative budget for benefits and claims expense was established at $3,800,000 prior to FY11 legislative changes to work comp statutes targeted to reduce claim costs. An independent actuarial assessment of the Program's premium needs in June 2011, after the legislative action, led to an approximate 14% reduction

Budget Variance (Continued)

in anticipated FY12 Program benefit and claim costs, premium needs and rates. The revenue and the benefit and claim expense in the budget above reflect the reassessed premium need and benefit and claim expense.

The operating revenue and expenses were very near budget, with a modest net income when non-operating revenues are considered. The $afety $mart program had the intended effect of a controlled reduction in net assets.

DLI Benchmarks

Annually, the Program undergoes an analysis and determination of financial ability to meet its obligations by the MT Department of Labor (DLI) Self-Insurers' Regulatory Department. The Program is meeting all DLI benchmark indicators of financial strength including DLI's key benchmarks described below:

- Equity Ratio –DLI requires a minimum 25% equity ratio (net worth to total assets) as an indicator of appropriate use of debt management. The MUS Program has continually met or exceeded the minimum ratio since 2007.
- Premium: Surplus Ratio – This ratio is designed to measure the ability of the insurer to absorb above-average losses and the insurer's financial strength. DLI's benchmark is a maximum of 3:1; lower ratios are considered to indicate greater financial strength. The Program has maintained a ratio of less than 3:1 since 2007.
- Equity: SIR Ratio – Equity to Self-Insured Retention (SIR) is a measure of the resources a self-insurer has available to pay for large claim costs prior to eligibility for reimbursement from excess insurance. Montana DLI recommends a 10:1 ratio. MUS work comp program's ratio at the end of 2012 is 15:1 for non-aircraft related claims and 8:1 for aircraft related claims.

Capital Asset and Long-Term Debt Activity

No significant activity regarding capital assets or debt occurred during the year. The Program's assets will continue to be invested in the Short-Term Investment Pool (STIP) administered by the MT Board of Investments. The Program does not carry any significant debt other than its estimated claim liabilities.

Currently Known Facts, Decisions or Conditions

Currently known facts, decisions, or conditions that are expected to have a significant effect on the Program's financial position (net assets) or on the results of operations (revenues, expenses) are summarized below:

- Changes made by the 2011 MT Legislature were anticipated by National Council of Compensation Insurers (NCCI) to reduce costs to the entire workers' compensation system (all insurers and insureds) by approximately 22%. MUS work comp reduced its 2012 composite rate by approximately 14% based on an actuarial analysis of the MUS Program in consideration of the legislative changes. While it is still quite early to gauge the impact of the changes, the WC Program had a small but measurable savings in the first year of the new eligibility requirements for certain work comp benefits. If the changes have the anticipated effect over time, future claim expenses should be reduced and claim liabilities can be expected to stabilize. Assuming premium rates are adjusted adequately, the effect on net assets should be neutral.
- As a new self-insurance program, a primary goal was to ensure that adequate reserves were established. Actuary reports from 2011 and 2012 identified that the Program has secured adequate, and potentially developed redundant, reserves. The Committee elected to fund significant campus safety and loss control projects during 2012 and 2013 to address claim frequency and severity and to lower the potentially redundant reserves, as well as to enhance worker safety. Approximately $480,000 in funding for 21 campus safety projects was awarded in FY2012. Safety project proposals are evaluated by the Committee on a competitive basis with no guarantee of funding. The Committee is reviewing the program, its effect on reserves, the effectiveness of the projects, and responsible reserve balancing mechanisms.

Currently Known Facts, Decisions or Conditions (Continued)

- Excess insurance reimbursement payments of approximately $11,400 for the one claim that has pierced the Self-Insured Retention (SIR) reduced expenses and had a positive effect on FY12 net assets. The Program will continue to receive reimbursements on this claim that is expected to remain open for the foreseeable future.
- 2013 is a legislative year. Though major reforms aren't anticipated, there may be some changes to the workers' compensation statutes.

CONCLUSION

MUS has a strong financial statement with good liquidity and a solid equity reserves. MUS Work Comp is financially stable and as it enters its 10th year of operation (FY13), the Program continues to meet the workers compensation needs of MUS employees and MUS campuses, while controlling costs and keeping premium at a stable and comparatively low rate.

MONTANA UNIVERSITY SYSTEM -
WORKERS' COMPENSATION PROGRAM
STATEMENTS OF NET ASSETS

	June 30 2012	June 30 2011
ASSETS		
Current Assets		
Cash and cash equivalents	$ 17,712,707	$ 16,556,125
Interest receivable	4,255	3,146
Reinsurance receivable	11,407	511,914
Premiums receivable	-	161,464
Short-term securities lending collateral	34,985	209,872
Prepaid expense	314,141	82,929
Total current assets	18,077,495	17,525,450
Noncurrent Assets		
Long-term investments	274,502	267,770
Total noncurrent assets	274,502	267,770
Total assets	$ 18,351,997	$ 17,793,220
LIABILITIES		
Current Liabilities		
Vouchers payable	$ 80,805	$ 89,909
Current portion of compensated absences liability	5,978	6,738
Current securities lending liability	34,985	209,872
Current portion of estimated claims liability	1,753,552	1,404,321
Total current liabilities	1,875,320	1,710,840
Noncurrent Liabilities		
Estimated claims liability-net of current portion	9,083,448	8,379,679
Estimated liability - OPEB	13,306	10,796
Total noncurrent liabilities	9,096,754	8,390,475
Total liabilities	$ 10,972,074	$ 10,101,315
NET ASSETS		
Unrestricted Net Assets	$ 7,379,923	$ 7,691,905

See the notes to financial statements.

MONTANA UNIVERSITY SYSTEM -
WORKERS' COMPENSATION PROGRAM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Years ended June 30	
	2012	**2011**
OPERATING REVENUES		
Premiums	$ 4,166,966	$ 4,716,339
OPERATING EXPENSES		
Claims administration	179,430	192,935
Actuary fees	17,075	21,506
Insurance and reinsurance expense	249,016	250,216
Audit fees	20,220	9,975
Dues	2,800	2,800
Department of Labor assessment	65,695	65,838
Bank Service Charges	120	60
Office supplies, printing, postage	325	130
Salaries, payroll taxes and benefits	83,498	81,677
Telephone	613	346
Miscellaneous expense	35,063	50,944
Safety awards	478,167	-
Claims paid and claims expense	3,397,522	3,555,302
Total operating expenses	4,529,544	4,231,729
OPERATING INCOME (LOSS)	(362,578)	484,610
NONOPERATING REVENUES (EXPENSES)		
Interest and investment income	45,662	41,276
Other nonoperating income	4,934	7,667
Total nonoperating revenues (expenses)	50,596	48,943
CHANGE IN NET ASSETS	(311,982)	533,553
NET ASSETS BEGINNING OF YEAR	7,691,905	7,158,352
NET ASSETS END OF YEAR	$ 7,379,923	$ 7,691,905

See the notes to financial statements.

MONTANA UNIVERSITY SYSTEM -
WORKERS' COMPENSATION PROGRAM
STATEMENTS OF CASH FLOWS

	Years ended June 30	
	2012	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from premiums	$ 4,328,430	$ 4,554,875
Claims paid and claims expense	(1,844,015)	(3,084,216)
Cash payments for insurance and reinsurance expense	(480,228)	(42,082)
Cash payments for employees	(84,258)	(83,172)
Cash payments for administrative expenses	(294,324)	(268,375)
Cash payments for other operating expenses	(511,778)	(48,414)
Net cash provided by operating activities	1,113,827	1,028,616
CASH FLOWS FROM INVESTING ACTIVITIES		
Reclassification of STIP from long-term investments	(6,732)	612,481
STIP security lending earnings received	4,934	7,667
Interest received	44,553	42,307
Net cash provided by investing activities	42,755	662,455
Net increase in cash	1,156,582	1,691,071
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	16,556,125	14,865,054
CASH AND CASH EQUIVALENTS END OF YEAR	$ 17,712,707	$ 16,556,125

See the notes to financial statements.

MONTANA UNIVERSITY SYSTEM -
WORKERS' COMPENSATION PROGRAM
STATEMENTS OF CASH FLOWS (Continued)

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	Years ended June 30	
	2012	**2011**
Operating Income (Loss)	$ (362,578)	$ 484,610
Adjustments to reconcile operating income to net cash provided by operating activities:		
Decrease (increase) in resinsurance receivables	500,507	(511,914)
Decrease (increase) in premium receivables	161,464	(161,464)
(Increase) decrease in prepaid expense	(231,212)	208,134
(Decrease) increase in vouchers payable	(9,104)	24,679
(Decrease) increase in compensated absences liability	(760)	(1,495)
Increase in estimated liability - OPEB	2,510	3,066
Increase in estimated claims liability	1,053,000	983,000
	1,476,405	544,006
Net cash provided by operating activities	$ 1,113,827	$ 1,028,616

See the notes to financial statements.

MONTANA UNIVERSITY SYSTEM - WORKERS' COMPENSATION PROGRAM NOTES TO FINANCIAL STATEMENTS June 30, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Description of Program:

The Montana University System - Workers' Compensation Program (the Program) was organized to provide self-insured workers' compensation coverage for employees of the Montana University System. The Montana University System Board of Regents elected to provide workers' compensation coverage under the Compensation Plan Number One (MCA 39-71-2101) as of July 1, 2003. Prior to that date, the Montana University System obtained its workers' compensation coverage through participation in the Montana State Fund. Each member of the Program is jointly and severally liable for the full amount of any and all known or unknown claims of each member arising during the member's participation in the program.

Basis of Accounting:

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Government Accounting Standards Board (GASB). Professional standards require resources to be classified for accounting and reporting purposes into the following three net asset categories:

- *Invested in capital assets, net of related debt:* Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- *Restricted:* Net assets whose use by the Program is subject to externally imposed stipulations that can be fulfilled by actions of the Program pursuant to those stipulations or that expire by the passage of time.

- *Unrestricted:* Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Committee or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use, it is the Programs's policy to use restricted first, then unrestricted resources as they are needed.

Reporting Entity:

In accordance with governmental accounting and financial reporting standards there are no component units to be included with the Montana University System-Workers Compensation Program as a reporting agency.

Application of FASB Documents Issued After 11/30/89:

In September 1993, GASB issued standards which require proprietary activities to apply all applicable GASB pronouncements as well as FASB pronouncements, APB opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless these conflict with or contradict GASB pronouncements. Governments have the option of whether or not to apply FASB pronouncements issued after that date to their proprietary activities. The Program has elected not to apply FASB pronouncements issued after November 30, 1989.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting:

The Program is considered a public entity risk pool and is reported as an enterprise fund of the State of Montana; that is, a fund that is financed and operated in a manner similar to private business enterprises, where the intent of the Program is that the expenses of meeting its organizational purpose be financed or recovered primarily through user charges and investment earnings, and the periodic determination of revenue earned and expense incurred as appropriate for capital maintenance, public policy, management control, accountability and other purposes. The Program maintains its records on the accrual basis of accounting with revenues recorded when earned and expenses recorded when the obligation is incurred. Operating revenues and expenses generally arise from providing insurance coverage. All other revenues and expenses are classified as nonoperating.

Administration of Claim Payments:

The Program contracts directly with Intermountain Claims, Inc. for claims administration services.

Allowance for Doubtful Accounts:

The Program considers all premium receivables to be fully collectible. Therefore an allowance for uncollectible premiums is not necessary.

Cash and Cash Equivalents:

Cash and cash equivalents consist of cash in checking accounts, specific investments held on behalf of the Program and pooled accounts with the Montana Board of Investments Short-Term Investment Program. The Program considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

The Program is authorized to invest in the Short Term Investment Pool (STIP) which is administered by the State of Montana Board of Investments who has a policy that STIP is managed in a manner consistent with the SEC Rule 2a7. As a 2a7-like pool, the STIP utilizes an amortized cost unit value to report net assets. The STIP portfolio includes asset-backed securities, banker's acceptances, certificates of deposit, corporate and government securities, repurchase agreements and variable-rate (floating-rate) instruments. Asset-backed securities represent debt securities collateralized by a pool of non-mortgage assets such as trade and loan receivables, equipment leases, and credit cards. Variable-rate (floating-rate) securities pay a variable rate of interest until maturity. The variable-rate securities float with the 91 day treasury bill or LIBOR (London Interbank Offered Rate).

Restricted Cash and Investments:

As required by Professional Standards, investments have been reported at fair value.

Estimates:

The preparation of the financial statements in conformity with generally accepted accounting principles requires requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenue and expenses. The major estimates are unpaid claims liabilities. Due to their prospective nature, actual results could differ from those estimates.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premium Revenue:

Premium rates are established by the Program's Committee based on anticipated premium needed as determined by the actuary. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies. The Program considers anticipated investment income in determining if a premium deficiency exists.

Unpaid Claims Liabilities:

The Program establishes claim loss reserves for unpaid claims liabilities based on actuarial estimates of the ultimate cost of claims (including future allocated claim adjustment expenses) that have been reported but not paid or settled and that have been incurred but not reported. The liability includes the unallocated claims adjustment expense. The liabilities are based on the estimated ultimate cost of settling the reported and unreported claims, and claims reserve development including the effects of inflation and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current reviews of claims information, experience with similar claims and other factors. Adjustments to estimated claims liabilities are charged or credited to expense in the periods in which they are made.

The Program is self-insured for workers' compensation claims to a maximum of $500,000 per each occurrence. Losses in excess of $500,000 are covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of $1,000,000 above the self-insured amount of $500,000. During the fiscal year ended June 30, 2012 and 2011, the Program ceded $249,016 and $250,216 in premiums to reinsurers.

Premium Receivable:

These amounts represent premium receivable from a component unit (Montana University System) of the State of Montana.

2. CASH AND INVESTMENTS

Cash and cash equivalents at June 30 consist of the following:

	2012	2011
Cash in bank	$ 388,961	$ 226,178
Interfund cash	670,005	826,486
Cash in Montana Board of Investments STIP Program	16,653,741	15,503,461
Totals	$ 17,712,707	$ 16,556,125

Interfund cash represents the cash held in the State of Montana Treasury. All of the cash on deposit in operating, savings and claims accounts at June 30, 2012 and 2011, is in US Bank which is entirely covered by federal depository insurance (FDIC).

2. CASH AND INVESTMENTS (Continued)

The following table presents the cost and the fair value of investments at June 30,

	2012		2011	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Structured investment vehicles	$ 274,502	$ 274,502	$ 267,770	$ 267,770

Effective June 30, 2005, the Program implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 "Deposits and Investment Risk Disclosures". The investment risk disclosures are described in the following paragraphs.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The STIP securities have credit risk as measured by major credit rating services. This risk is that the issuer of a STIP security may default in making timely principal and interest payments. The Board of Investments' policy specifies that STIP securities have ratings provided by Standard and Poor's, Moody's, or Fitch. Information regarding the credit ratings for funds held by the Short Term Investment Pool (STIP) is available in the Board of Investment's comprehensive annual financial report.

Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 requires that a government entity disclose the amount invested in a separate issuer (except investments held in the U.S. government or investments guaranteed by the U.S. government) when that amount is at least 5% of total investments. The STIP Investment Policy Statement addresses concentration of credit risk by investment category. Information regarding the credit risk exposure for funds held by the Short Term Investment Pool (STIP) is available in the Board of Investment's comprehensive annual financial report.

As of June 30, 2012 and 2011 the Program had Structured Investment Vehicles that made up 100% of the total investments of $274,502 and $267,770, respectively.

Legal and Credit Risk

In January 2007, the Board of Investments (the Board) purchased a $25 million par issue of Orion Finance USA. In April 2007, the Board purchased two issues of Axon Financial Funding totaling $90 million par and another $25 million par issue of Orion Finance USA. As of June 30, 2007, these Structured Investment Vehicle (SIV) securities held in the STIP portfolio carried a combined amortized cost of $139,991,131 representing 5.02% of the total portfolio. At the time of purchase and as of June 30, 2007, these four issues received the highest investment grade rating of AAA by Standard & Poors and Aaa by Moody's. As of June 30, 2008, these issues carried a D rating by Standard & Poors. On November 20, 2007, an insolvency event was declared by Axon Finance USA. Orion Financial Funding declared an insolvency event on January 14, 2008. On the January and April 2008 maturity dates, these securities matured at their amortized cost of $140 million.

2. CASH AND INVESTMENTS (Continued)

The Board has determined that it is currently in the best interest of the STIP to continue to hold these securities in the investment portfolio. These SIV securities are currently generating cash to be applied to the securities.

The Montana University System - Workers Compensation Program's share of these investments as of June 30, 2012 and 2011 is $274,502 and $267,770, respectively. These are shown as long-term investments on the statement of net assets as of June 30, 2012 and 2011.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of the outside party.

As of June 30, 2012 and 2011, all STIP securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the Bank. According to the STIP Investment Policy, "repurchase agreements will be collateralized by the market value of U.S. Treasury and/or U.S. Agency securities at 102% of the value of the repurchase agreement. Information regarding the collateralization and risk of funds held by the Short Term Investment Pool (STIP) is available in the Board of Investment's comprehensive annual financial report. There is no regulatory oversight for the investment pool, and the pool does not have a credit quality rating. Participants' equity in the pool approximates the fair value of the underlying investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Program investment policies do not formally address interest rate risk. In accordance with GASB Statement No. 40, the Program has selected the effective duration method to disclose interest rate risk.

GASB Statement No. 40 defines duration as a measure of the debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds, prepayments, and variable-rate debt.

3. SECURITIES LENDING

The State of Montana Board of Investments has authorized the use of securities lending transactions - loans of debt or equity securities to broker-dealer and other entities for collateral with a corresponding agreement for Board of Investments to return the collateral for the same securities in the future. The Board has contracted with the custodial bank, State Street Bank and Trust (Bank). The Bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities while the securities are on loan. The Board and the Bank split the earnings on security lending activities. The Board retains all rights and risks of ownership during the loan period. Information regarding the Short Term Investment Pool (STIP) securities lending transactions is available in the Board of Investment's comprehensive annual financial report.

4. RELATED PARTIES

Certain employees of the campuses of the university system provide services to the Program at no charge. The value of such services has not been determined.

5. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Plan Description

The Public Employees' Retirement System (PERS) is a statewide retirement plan established in 1945 and governed by Title 19, Chapters 2 and 3 of the Montana Code Annotated providing retirement services to substantially all public employees. The PERS is a mandatory multiple-employer, cost-sharing plan administered by the Public Employees' Retirement Division (PERD).

The PERS offers retirement, disability, and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary. Members' rights become vested after five years of service. The authority to establish, amend, and provide cost of living adjustments for the plan is assigned to the State legislature.

The plan is included in a comprehensive annual financial report that includes financial statements and other required supplemental information. The report is available at the following address:

100 North Park Avenue Suite 200, P.O. Box 200131, Helena, MT 59620-0131

Funding Policy

Contribution rates for the plan are required and determined by State law. The PERS rates for employees and employers expressed as a percentage of covered payroll, were as follows:

Members hired before July 1, 2011:

	Employer	Employee	Total
2012	7.17%	6.9%	14.07%
2011	7.17%	6.9%	14.07%
2010	7.17%	6.9%	14.07%

Members hired after July 1, 2011:

	Employer	Employee	Total
2012	7.17%	7.9%	15.07%

The amounts contributed by the Program to the plan during the years ended June 30, 2012 and 2011, were $4,686 and $4,623, respectively.

6. LEASE AND RENT EXPENSE

The Program as part of the Office of the Commissioner of Higher Education entered into a ten year lease agreement with Student Assistance Foundation of Montana to lease a portion of office space at the building located on 2500 Broadway, Helena, Montana. The commencement date of the lease was January, 1, 2009. During the years ended June 30, 2012 and 2011, the Program paid rent of $7,068 and $7,557, respectively.

The following is a schedule by year of minimum future lease payments for the years ended June 30:

2013	$ 4,271
2014	4,349
2015	4,348
2016	5,002
2017	5,003
Thereafter	10,188
Total minimum future rentals	$ 33,161

7. UNPAID CLAIMS LIABILITIES

As discussed in Footnote 1, the Program establishes actuarial estimated unpaid claims liabilities (undiscounted basis). The estimated unpaid claims incurred but not reported and loss development liability have been adjusted to reflect the actuarial estimates of the ultimate cost of claims. The management of the Program has set the unpaid claims liability at the actuary's best estimate for 2012 and 2011. Certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation. The following represents changes in the aggregate unpaid claims liabilities for the Program for:

	2012	2011
Total present value of estimated unpaid claim losses at beginning of year	$ 9,784,000	$ 8,801,000
Changes in the estimated unpaid claim losses:		
Provision for insured events of the current year	3,158,000	3,115,000
Increase (decrease) in provision for insured events of prior years	239,522	440,302
Total incurred claims	3,397,522	3,555,302
Payments (including claims legal defense):		
Claims paid attributable to insured events of current year	709,651	742,041
Claims paid attributable to insured events of prior years	1,634,871	1,830,261
Total payments	2,344,522	2,572,302
Total present value of estimated unpaid claim losses at end of year	$ 10,837,000	$ 9,784,000

7. UNPAID CLAIMS LIABILITIES (Continued)

The estimated liability for workers' compensation claims as of June 30, consist of the following:

	2012	2011
Estimated claims reported but unpaid	$ 1,753,552	$ 1,404,321
Estimated claims incurred but not reported and loss development	9,083,448	8,379,679
	$ 10,837,000	$ 9,784,000

8. OTHER POSTEMPLOYMENT BENEFITS

A retiree may continue coverage with the Montana University System Employee Group Benefits Plan if the retiree is eligible to receive a State Retirement Benefit from Teacher Retirement System (TRS) or the Public Employee Retirement System (PERS) at the time they leave their employment with the Montana University System. Retirees who are in the Optional Retirement Plan (ORP) (through TIAA-CREF) or any other defined contribution plan must have worked five or more years and be age 50, or have worked 25 years with the Montana University System to be eligible for Retiree insurance benefits.

An eligible Retiree must make arrangements with the Human Resources/Benefits Office to continue coverage as a Retiree on a self-pay basis within 63 days of retirement.

Plan Description

The Montana University System Employee Group Benefits Plan is considered a multiple employer agent plan. The Plan allows retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and footnotes. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the Program. The Plan is reported as an agency fund. There are no assets or liabilities as only contributions collected and distributions made are reflected in the fund. See the funding policy that follows.

The MUS Group Benefits Plan does not issue a standalone financial report, but is subject to audit as part of the State of Montana's Comprehensive Annual Financial Report (CAFR). A copy of the most recent CAFR can be obtained online at http://accounting.mt.gov/cafr/default.mcpx or by contacting the Montana Department of Administration, P.O. Box 200102, Helena, MT 59620-0102.

As of June 30, 2012, the number of MUS Worker's Compensation Program active participants in the health insurance plan was 1.

Funding Policy

The MUS Benefits Program funds the post employment benefits on a pay-as-you-go basis from premiums from campuses and retirees. Montana Code Annotated, Title 20, Chapter 25, Part 13 gives authority for establishing and amending the funding policy to the Montana University System.

8. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funding Policy (Continued)

The Plan's administratively established self-insured retiree medical premiums vary between $263 and $982 per month are revised annually. The Plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. After an annual $650 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 75% for the first $1,300 in medical claims and 100% thereafter. There is an optional $1,500 deductible plan available to retirees with a reduced premium. After the $1,500 annual deductible, the Plan pays 75% of the first $3,000 and 100% thereafter. The Plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare.

Annual Other Postemployment Benefit Cost and Contributions

The Program's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The calculated ARC represents an amount that, if funded, would cover normal cost each year and amortize any unfunded actuarial liability over a period not to exceed 30 years. For the fiscal year ended June 30, 2012 and 2011, the Program's annual OPEB cost (expense) of $2,510 and $3,066 was equal to the ARC. The actuarial determination was based on plan information as of July 1, 2009.
There are no long-term contracts for contributions to the Plan. Contributions refer to contributions made in relation to ARC. Since MUS does not fund the Plan, no contributions were made.

The following table presents the Workers' Compensation Program OPEB cost for the fiscal years ended June 30, 2012 and 2011, the amount contributed, and changes in the Workers' Compensation Program OPEB plan for fiscal year 2012 and 2011:

	2012	2011
Annual required contribution/OPEB cost	$ 1,965	$ 2,721
Interest on net OPEB obligation	545	345
Annual OPEB cost	2,510	3,066
Contributions made	-	-
Increase in net OPEB obligation	2,510	3,066
Net OPEB obligation - beginning of year	10,796	7,730
Net OPEB obligation - end of year	$ 13,306	$ 10,796

Actuarial Methods and Assumptions

The projected unit credit funding method was used to determine the cost of the Montana University System Employee Group Benefits Plan. This method's objective is to fund each participant's benefits under the Plan as they accrue. The total benefit to which each participant is expected to become entitled at retirement is categorized into units, each associated with a year of past or future credited service.

8. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions (Continued)

The actuarial assumptions included, in addition to marital status at retirement, mortality rates and retirement age:

Interest/Discount Rate	4.25%
Payroll Growth Rate	2.50%
Participation	55% of future retirees are assumed to elect medical coverage, 60% of the future retirees who elect coverage and are married are assumed to elect spousal coverage as well
Healthcare Cost Trend Rate-Medical	10.00%
Healthcare Cost Trend Rate-Prescription drugs	9.50%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples includes assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual review and revision as actual results are compared with past expectations, and new estimates are made about the future.

9. ACCOUNTING CHANGES AND RESTATEMENTS

During the fiscal year ended June 30, 2012, the Montana University System - Workers' Compensation Program changed their method of recording the annual assessment from the Montana Department of Labor and Industry (MT DLI). Annually, the MT DLI assesses every workers' compensation carrier a fee based on medical and indemnity compensation cost it paid during the previous calendar year. In years through fiscal year 2011, the assessment was paid and recorded in the current fiscal year in which the assessment was invoiced. Starting with fiscal year ended June 30, 2012, the Program changed its method to record the expense in the fiscal year to which the assessment relates.

The effect of this change resulted in an increase to fiscal year 2011 beginning net assets of $65,838. It also resulted in a decrease in the fiscal year 2012 and 2011 change in net assets of $143 and $65,695, respectively.

10. SUBSEQUENT EVENT

Management has evaluated subsequent events through October 31, 2012, the date on which the financial statements were available to be issued.

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

To the Legislative Audit Committee
of the Montana State Legislature
Helena, Montana

Our report on our audits of the basic financial statements of the Montana University System - Workers' Compensation Program for the years ended June 30, 2012 and 2011 appears on page three. Those audits were made for the purpose of forming an opinion on such financial statements taken as a whole. The supplemental information is information required by the accounting principles generally accepted in the United States of America and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2012 and 2011 taken as a whole.

The previous statements of net assets and the related statements of revenues, expenses and changes in net assets, and statements of cash flows were audited in accordance with generally accepted auditing standards as of and for the years ended June 30, 2004 through 2010 (none of which is presented herein) by us and other auditors who expressed an unqualified opinion on those financial statements. In our and their opinions, the supplemental information is fairly stated in all material respects in relation to the basic financial statements from which it has been derived taken as a whole.

Junkermier, Clark, Campanella, Stevens, P.C.

Helena, Montana
October 31, 2012

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MONTANA UNIVERSITY SYSTEM -
WORKERS' COMPENSATION PROGRAM
CLAIMS DEVELOPMENT INFORMATION

The table on the following pages illustrates how the Program's earned revenues (net of excess loss coverage) and investment income compare to related costs of loss (net of loss assumed by excess loss coverage insurers) and other expenses assumed by the Program as of the end of the current accounting period and the prior period. The rows of the table are defined as follows:

1 This line shows the total of each period's earned contribution revenues and investment revenues.

2 This line shows each period's other operating cost of the Program including overhead and claims expense not allocable to individual claims.

3 This line shows the Program's incurred claims and allocated claims adjustment expense (both paid and accrued) as originally reported at the end of the first fiscal period in which the event that triggered coverage under the contract occurred.

4 This section of rows shows the cumulative amounts paid as of the end of successive periods for each fiscal period.

5 This section of rows shows how each policy period's incurred claims increased or decreased as of the end of successive periods. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.

6 This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy periods mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature fiscal periods.

See the accompanying independent auditors' report on supplemental information.

MONTANA UNIVERSITY SYSTEM - WORKERS' COMPENSATION PROGRAM
CLAIMS DEVELOPMENT INFORMATION

		Fiscal and Policy Year Ended								
		2004	2005	2006	2007	2008	2009	2010	2011	2012
1.	Net earned (required contribution and investment revenues)	$ 2,273,944	$ 2,850,849	$ 3,510,259	$ 4,153,570	$ 4,777,099	$ 4,930,524	$ 4,758,849	$ 4,515,064	$ 3,968,546
2.	Unallocated expenses	227,267	279,716	263,904	259,412	386,512	460,508	441,977	426,068	883,006
3.	Estimated incurred claims and expenses, end of policy year	2,174,000	2,366,000	2,453,000	2,600,000	2,693,000	2,922,000	2,959,000	3,115,000	3,158,000
4.	Net paid (cumulative) as of:									
	End of policy year	551,749	382,154	390,972	367,913	469,399	640,717	572,486	742,041	709,651
	One year later	1,019,751	1,001,996	910,335	932,787	1,099,932	1,764,405	1,446,724	1,608,465	
	Two years later	1,123,504	1,227,600	1,254,242	1,092,644	1,286,205	2,997,006	1,835,851		
	Three years later	1,147,508	1,526,088	1,351,046	1,157,520	1,440,632	3,725,598			
	Four years later	1,165,362	1,554,903	1,386,285	1,203,059	1,497,940				
	Five years later	1,210,361	1,660,121	1,393,297	1,227,284					
	Six years later	1,251,309	1,691,861	1,401,236						
	Seven years later	1,253,722	1,759,234							
	Eight years later	1,257,246								
5.	Reestimated ceded claims and expenses	-	-	-	-	-	-	-	-	
6.	Reestimated net incurred claims and expenses									
	End of policy year	2,174,000	2,366,000	2,453,000	2,600,000	2,693,000	2,922,000	2,959,000	3,115,000	3,158,000
	One year later	2,174,000	2,565,000	2,267,356	2,293,413	2,686,541	3,046,000	3,017,000	3,428,000	
	Two years later	2,037,000	2,459,000	2,510,000	2,412,000	2,630,000	3,977,000	3,000,000		
	Three years later	1,830,000	2,602,000	2,471,000	2,131,000	2,391,000	4,199,000			
	Four years later	1,570,000	2,622,000	2,069,000	1,804,000	2,335,000				
	Five years later	1,499,000	2,312,000	1,512,000	1,779,000					
	Six years later	1,327,000	1,965,000	1,511,000						
	Seven years later	1,284,000	1,825,000							
	Eight years later	1,288,000								
7.	Increase (decrease) in estimated net incurred claims and expenses from end of policy year	(886,000)	(541,000)	(942,000)	(821,000)	(358,000)	1,277,000	41,000	(313,000)	-

See the accompanying independent autitors' report on supplemental information

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Legislative Audit Committee
of the Montana State Legislature
Helena, Montana

We have audited the financial statements of Montana University System - Workers' Compensation Program, (an enterprise fund of the State of Montana) as of and for the years ended June 30, 2012, and have issued our report thereon dated October 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

<u>Internal Control Over Financial Reporting</u>

Management of Montana University System - Workers' Compensation Program is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Montana University System - Workers' Compensation Program's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Montana University System - Workers' Compensation Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Montana University System - Workers' Compensation Program's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montana University System - Workers' Compensation Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain other matters that we reported to management of Montana University System - Workers' Compensation Program in a separate letter dated October 31, 2012.

This report is intended solely for the information and use of the audit committee, management, others within the Montana University System - Workers' Compensation Program, and is not intended to be and should not be used by anyone other than these specified parties.

Junkermier, Clark, Campanella, Stevens, P.C.

Helena, Montana
October 31, 2012

MONTANA UNIVERSITY SYSTEM -
WORKERS' COMPENSATION PROGRAM
SCHEDULE OF FINDINGS AND RESPONSES

The results of our tests disclosed no instances of noncompliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters or any internal control deficiencies considered to be significant deficiencies or material weaknesses, which were required to be reported under *Government Auditing Standards* as of June 30, 2012.

MONTANA UNIVERSITY SYSTEM -
WORKERS' COMPENSATION PROGRAM
STATUS OF PRIOR YEAR FINDINGS

The results of our tests disclosed the following instances of noncompliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, which were required to be reported under *Government Auditing Standards* as of June 30, 2011.

<u>Criteria:</u>
The Program's internal control procedures require that reconciliations of the values reported on the premium reports to the values that are transferred to the Program SABHRS be performed in a timely manner.

The Program did not perform a reconciliation as required per the program's internal control procedures for the monthly reconciliation of the values reported on the premium reports to the values that are transferred to the Program SABHRS account for one month in fiscal year 2011.

<u>Cause:</u>
The required monthly reconciliation was not performed for one month out of twelve.

<u>Effect:</u>
Untimely reconciliation of the premium revenue led to a material receivable balance and related revenue not being recorded and detected by the Program's internal controls.

<u>Recommendation:</u>
We recommend the Program document their required monthly reconciliation's of the values reported on the member's premium reports to the values that were transferred to the Program SABHRS account.

<u>Status:</u>
Montana University System - Workers' Compensation Program has updated and implemented relevant portions of existing procedure to ensure adequate internal controls over premium revenue.

Additional procedures include:

1. OCHE accountant verifies that each premium payment received matches the payroll/premium spreadsheet entry made by the Program Director and enters the IUJ Document number on the spreadsheet when each transaction is successfully completed.
2. Monthly and prior to the books closing at fiscal year end, Financial Manager and Program Director reconcile the Trial Balance Premium Revenues with the payroll/premium totals on the spreadsheet.

MSU-Bozeman has also updated its procedures to ensure that premium payment transactions are completed.

MONTANA UNIVERSITY SYSTEM
OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION

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October 31, 2012

Junkermier, Clark, Campanella, Stevens, P.C.
Certified Public Accountants
P.O. Box 1164
Helena, Montana 59624

RE: Montana University System – Workers Compensation Program response

Dear Junkermier, Clark, Campanella, Stevens, P.C.

On behalf of the Montana University Workers' Compensation Program and the Office of the Commissioner of Higher Education, I wish to express my appreciation to you for the work done on the fiscal year 2012 financial compliance audit. We want to especially thank JCCS auditor Megan Walsh for her professional competence, effective communication and helpful manner in conducting the audit on an expedited schedule.

We received an unqualified opinion with no recommendations.

Sincerely,

Leah Tietz
Program Director